

# Research group finds state's business-tax climate dismal

Rhode Island gets poor marks for its high unemployment -insurance tax, high property taxes and high personal-income taxes.

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Rhode Island has one of the most unfriendly business-tax climates in the nation, according to a study by a nonprofit think tank in Washington, D.C.

The Tax Foundation, a tax research organization, released its third annual state-by-state ranking of business-tax climates earlier this week. Rhode came in 48th in this year's study.

With a high unemployment-insurance tax, high property taxes and high personal-income taxes, Rhode Island's climate is one of the most unattractive in the nation for businesses, according to the study.

This is not the first time the state has fared poorly in a ranking study. Rhode Island came in 37th in a competitiveness report released in December by the Beacon Hill Institute, a think tank at Suffolk University in Boston. And in prior Tax Foundation studies, the state also landed near the bottom.

While state legislators questioned Beacon Hill's results, the Tax Foundation's study does have some merit, said Gary Sasse, executive director of the Rhode Island Public Expenditures Council, a business-backed research group.

Property taxes in Rhode Island communities and the state's decision to "levy several wealth-based taxes" are deterrents to business, according to the study. In addition, the state's temporary-disability insurance, its double-digit unemployment-insurance tax rate, and its top income-tax rate all contributed to its low performance in the rankings.

"My concern is that we do have a punitive tax environment for company builders," said Michael McMahon, executive director of the Rhode Island Economic Development Corporation.

RIPEC research has generated similar results, said Sasse. For example, during a recent property-tax study, RIPEC found that Providence's commercial property tax is 70 percent higher than the national average, and 72 percent higher than the New England average.

"There's nothing that's unexpected in the work of the Tax Foundation. In terms of benchmark and direction, I think it's an accurate description of our relative situation," said Sasse.

Rhode Island was ranked lowest of the six New England states. New Hampshire, with no sales tax, was ranked highest in the region and was the sixth-most business-friendly state in the nation. All of the states in the top 10 reached that status because they did not have one of the three major taxes -- business, income or sales, according to the study. Massachusetts, known in prior decades as "Taxachusetts," came in 27th.

"Short of eliminating one of those types of taxes, it's going to be difficult to jump into the top ten," said Curtis Dubay, an economist with the Tax Foundation. States can slip into the bottom 10 by making their tax bases more complicated and by raising rates, according to Dubay.

Although Governor Carcieri said earlier this year that broad-based tax relief is not an option in the fiscal 2007 budget due to a \$222-million deficit, he would like to eventually lower the state's sales tax to match Massachusetts'.

House Democratic leaders took a more aggressive stance this year on addressing the state's tax climate by proposing last month a tax-cutting package that includes a two-day sales-tax holiday in August; an income-tax credit for low-income, disabled or elderly people; an increase in the tax credit for low-wage workers; and a flat-rate income tax for Rhode Islanders making more than \$250,000 a year.

There are some people, however, who disagree with studies that contend Rhode Island's tax climate is unfriendly to business. The Poverty Institute at the Rhode Island College School of Social Work, has spoken out about the proposed tax cuts and the notion that the state's tax structure is unattractive. The income tax Rhode Islanders pay is not that high when deductions and tax credits are factored in, said Ellen Frank, senior economist for the institute.

"It's an anti-tax foundation that counts all taxes as bad," said Frank, adding that the Tax Foundation hasn't proven that the tax issues it measures in its index actually affect business decisions.

Sasse said it is important to remember when evaluating rankings by research groups that the findings provide only a snapshot of a state's economy. The Tax Foundation's study looks only at how attractive states' tax climates are to business, he said. To evaluate a state's overall business climate, it is necessary to look at its infrastructure, its schools and its proximity to certain markets, said Sasse.

"You have to recognize it for what it is -- not a measure of the overall business climate in the state -- but a measure of the business-tax climate.

"That's an important distinction," he said.

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